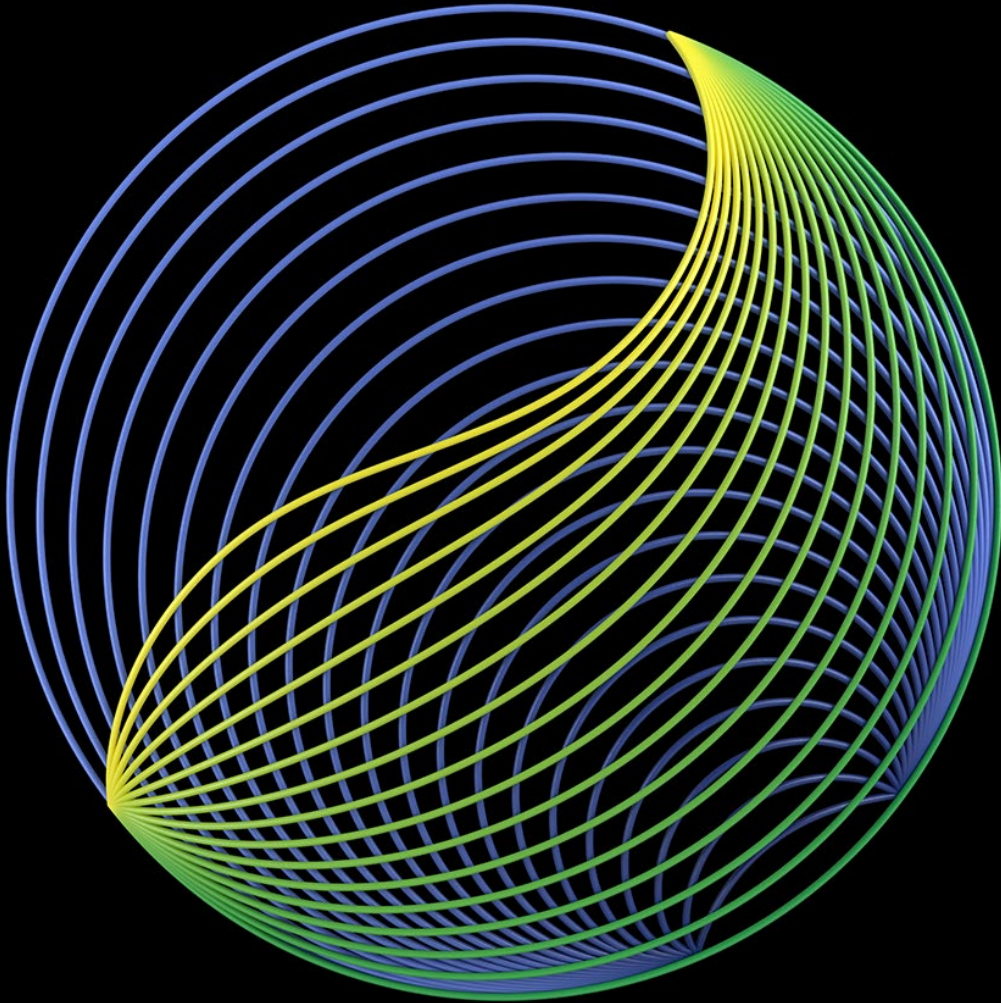


Deloitte.



Transportation,
hospitality and services

The hospitality industry:
Time for recovery

**Value creation
services**

Value recovered
Value delivered

COVID-19: The hospitality sector

The hospitality industry is facing a huge challenge as a result of the COVID-19 pandemic. The industry is at a turning point and focused on the recovery that we envisage taking place in the future.

Overview and economic impact of COVID-19

COVID-19 has impacted the hospitality industry and put strains on both supply and demand. In the last 12 months, COVID-19 has continued to affect the industry: lock-down periods, and international and local restrictions on movement have led to a huge drop in revenues and a situation of emergency due to financial difficulties:

- **Dramatically lower revenues** due to the uncertainty in the whole hospitality and travel ecosystem.
- **Operational and financial challenges**, including issues with liquidity, debt repayments or how to develop “smart capex” on assets to maintain tariffs and/or competitive advantage.
- **Uncertainty about the timing and speed of the recovery** depending on the arrival of treatments for the virus in order to return to “normal”.

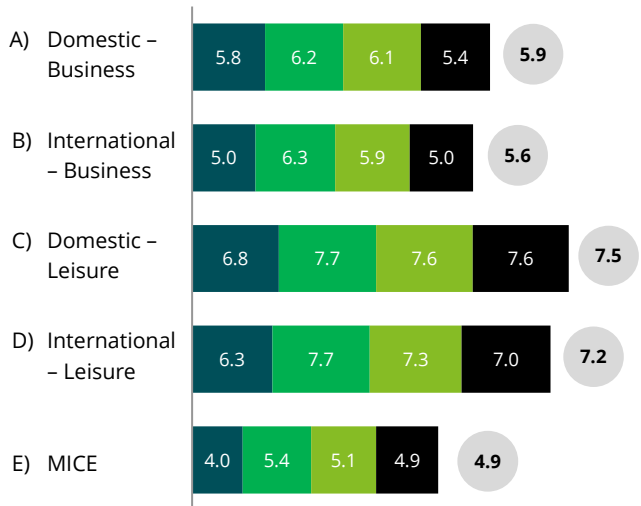
In April 2021, there is no unanimity about the timeline for recovery, although the partial consensus is that the Western economies will recover in 2021 and get back to 2019 parameters in 2022.

According to the Deloitte Sentiment Survey (carried out in Spain with local and international companies), hotel chains consider that local and international travelers will be key for the recovery.



Expected capacity for recovery of various groups of travelers

(From 1 to 10, 1 being "low capacity" and 10 being "high capacity")



Source: Deloitte



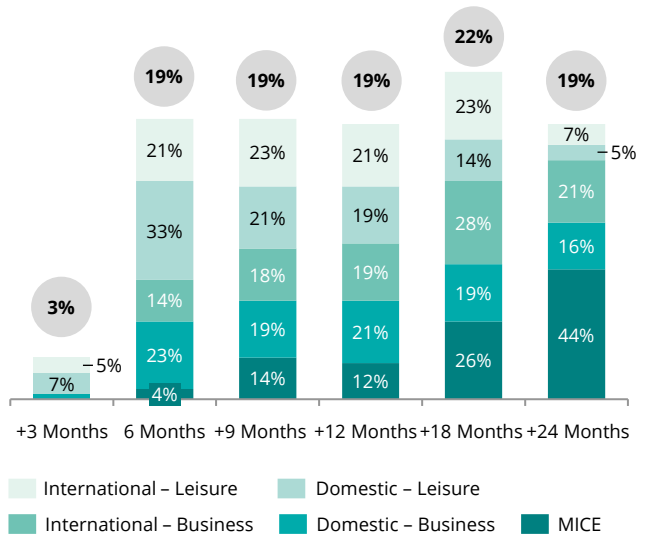


The main uncertainty is the MICE segment, as hoteliers are unable to predict when and how this segment will return to normality.

Scenario planning to reconsider the duration and depth of the dip as well as the new “waves” of the pandemic will lead to some general and specific requirements to safeguard the hospitality business and allow it to thrive once the shock recedes. Hospitality companies will need to review their key areas for liquidity, cash and working capital, supply chain and costs and operational issues that have arisen as a result of managing the pandemic.

Expected recovery time horizon for various groups of travelers

(Recovery to stable demand levels)



Source: Deloitte

Taking appropriate action

In view of the uncertainty of the risks, hospitality leaders are concerned about how their companies will be affected and what they should do next. There are several lessons that can be applied now.

Impact of COVID-19 on the hospitality industry

Changes in the consumer behavior: Changes to consumer spending and behavior due to COVID-19: short-term bookings and the importance of reliable benchmarks in hotels and restaurants.

Digitalization: The speed of the adoption of technology, sources of technological innovation (payments, contactless technology, delivery, etc.), and attitudes toward data-sharing are creating a new era for the hospitality industry in which companies will have to evolve and adapt.

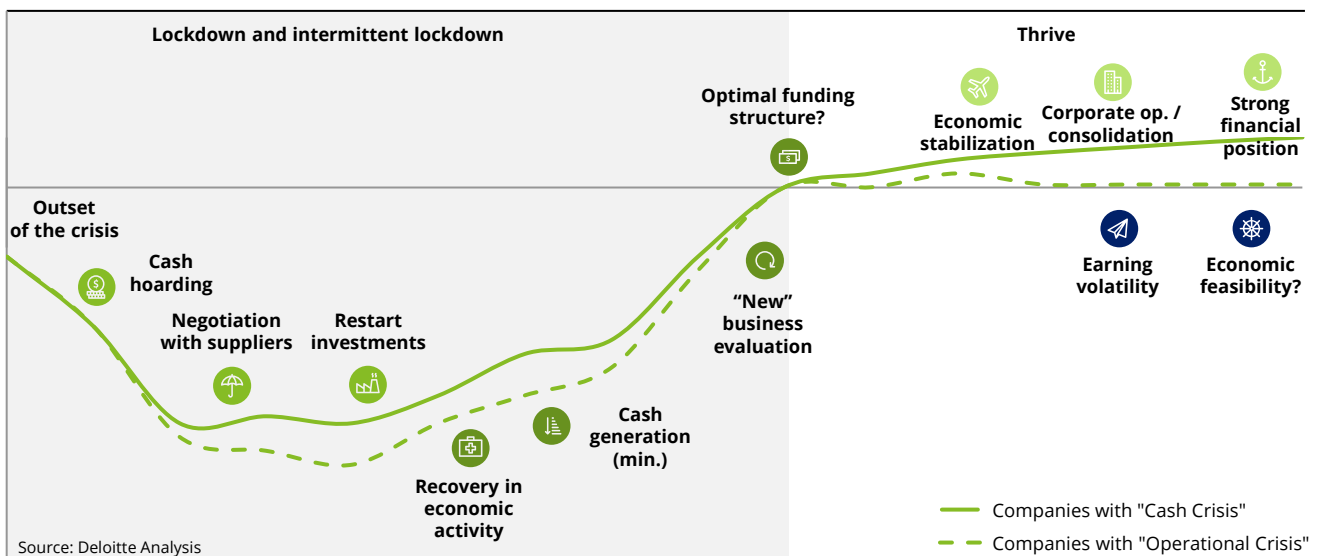
Financial restrictions: Uncertainty around the visibility of sales, cash constraints and debt repayments have created the perfect storm for the industry. Bridge financing, asset disposals and debt restructurings are solutions to try to overcome the impacts of upheaval in the industry and an opportunity for more alternative lenders to jump into the industry.

Consolidation of supply: The opportunity of each market to generate demand flow and the ability of those economies to fully recover will drive developments in the hospitality industry's product offering. The latest expansion of the hotel industry in some countries (Spain, Italy, Greece, etc.) and the lack of demand in those countries (more than 12 months) could trigger a consolidation process.

Government support: Fiscal and monetary support arising from the crisis will be crucial to strengthening the recovery and to avoid companies in the industry becoming insolvent and being liquidated.

A comprehensive cash management framework comprising practical steps to ensure stakeholder protection and business continuity and preparation to successfully deal with the various waves of the pandemic

Liquidity Trend



Taking appropriate action

During the pandemic (and its various waves) companies in the hospitality industry have prioritized their actions to preserve cash and to survive in this tough environment (lack of demand, financial stress).

Some actions to bypass the pandemic are:

Intense cash forecasting: Model to provide decisions to manage short-term liquidity during lock-down periods and the intermittent “normality” that companies are facing.

Business review and turnaround planning: Understand short-term cash flow/liquidity needs, while assessing commercial, financial and strategic options to manage the uncertainty.

Working capital and cash management: Managing working capital and have strategies in place to free up cash when needed as a partial solution in front of financing limitations.

Workforce and talent strategy: Supporting the workforce during the pandemic and developing a workforce strategy to deliver business needs (including government aids for the most relevant financial stress period).

Financial restructuring: Structure corporate debt to increase profitability or restructure to maintain operations when debt repayments are compromising the feasibility of the company.

Strategic M&A: Assess opportunities to accelerate shedding underperforming assets to generate cash. Opportunities for (distressed) acquisitions are in the market according to strategies played by the industry; since reinforcing competitive positioning to actions to protect and safeguard the core business.



What we see our clients doing

Hospitality businesses are developing a financial and liquidity turnaround strategy, identifying risks and optimizing capital (including M&A deals) to protect and to establish a resilient foundation for the COVID-19 period and the post-pandemic era.



Hospitality companies have been maximizing **cash & working capital** expertise to identify and implement measures to facilitate working capital liquidity in various scenarios and conducting longer term stress testing to ensure business continuity.

Regardless of whether there were pre-existing opportunities (e.g., poor cash collection cycle, unbilled revenue, seasonal demand, etc.), gaining better foresight and control of cash and working capital has been an imperative. During lock-down decisions as to whether or not to open hotels and restaurants were driven by cash preservation needs due to the lack of demand and the uncertainty regarding whether companies would or would not cover their costs.

As a result, companies have been facing severe cash flow and liquidity issues and at the same time are taking action to ensure alternative sources of funding during the crisis:

Looking for new sources of funding (government aid, alternative financing, etc.) to support the initiatives required on the road to recovery.

Adjusting the business (cost optimization, payment deferral, delayed capex, lease negotiations, etc.) and making continuous difficult decisions in an uncertain market.

Identifying 'quick win' self-help measures to deliver rapid, tangible cash flow benefits, such as temporary rent concessions or refinancing options to allow for higher borrowing capacity under existing debt facilities.

Prioritizing all available actions and producing a working capital roadmap; preparing an initial 100-day cash flow forecast, revising assumptions, and identifying specific pain points.

Preparing to operate in the "new normal" environment with new dynamics depending on the waves of the pandemic, intermittent lockdowns or restrictions on travel that will allow companies to once again have stable cash flow in the near term.

As part of this "pandemic era" and in order to adapt their vision of the future to the new circumstances, clients are re-thinking the financial shape of their businesses and setting them up for growth in the longer term.

What we see our clients doing

This need for financial transformation planning has been particularly acute in the hospitality industry due to the severe pressure that the COVID-19 crisis has created. Therefore, companies are **in the process of a turning round their businesses** to help them beyond the short-term challenges in:

Conducting detailed scenario planning for the new pandemic era by defining a restructuring scenario to safeguard business continuity.

Identifying opportunities to reconfigure activity by improving and transforming the company (digitalization, consumer behavior, etc.): process and operational improvement, cost optimization, tax planning, etc.

Determining the best refinancing option to reset or reconfigure obligations: an equity offering as an alternative to strengthen the balance sheet, amending and extending a solution to relieve financial stress or debt re-sizing, depending on potential divestments.

Companies in the industry that need to shore up their finances are reconfiguring their business by means of a divestment or, in some cases, a managed exit. By identifying and shedding non-core assets, including units that have been made less competitive or profitable by the pandemic, a company can raise capital to support its core business—or at least to stem the drain on its resources. In this environment, **M&A strategies and approaches can be categorized as follows:**

- **Defensive M&A.** These strategies and approaches focus on disposals to release capital to provide short- to medium-term liquidity (singular hotel assets, restaurants, shops, etc.).
- **Offensive M&A:** These strategies and approaches focus on measured disposals of non-core assets to re-focus operations and opportunistic acquisitions to reinforce competitive advantage in the market.

Case study

Deloitte applied its financial, operational and hospitality industry knowledge to solving the client's financial difficulties as a result of the intermittent lockdown periods and the lack of a stable demand; the industry is expected to face similar challenges as the COVID-19 crisis will not be overcome easily.



Situation

- COVID-19 has affected the travel industry dramatically. Lock-down periods and domestic and international restrictions on movement in the summer of 2020 have led to financial stress in the industry
- The company reopened its hotels worldwide (Europe and the Caribbean) as soon the restrictions were relaxed
- The company underestimated the impact of COVID-19 on demand and the complexity of ramping-up its hotel platform
- Wrong cash forecasts and incremental liquidity needs in the summer due to the absence of domestic and international travelers



Approach

- Quick financial analysis in order to evaluate the impact of the COVID-19 situation
- Identification of the potential measures on P&L, balance sheet and cash flow: Closedown of non-cash generating hotels, cost optimization plan for the rest, new scenario planning for the new season (hotels to open, cash needs, etc.)
- Development of a robust solution and recommendations for refinancing current debt: Amendment and extension of the solution with banks, government aid to increase the company's liquidity and M&A for some non-strategic assets
- Rapid use of operational expertise to develop and implement measures and plan a turnaround



Results

- Turnaround plan deployed, including a refinancing process to ensure the viability of the company
- Sale and lease-back of some hotels in order to reinforce the company's liquidity
- Plan to re-open the hotels for Easter and summer of 2021 according to moving scenario planning following demand behavior and restrictions in place (Deloitte analytics model for hotels)

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Partners & directors: **30+**

Value creation practitioners: **400+**

VCS Engagements: **500+**

Americas

Partners & directors: **50+**

Value creation practitioners: **500+**

VCS Engagements: **500+**

Asia/Pacific

Partners & directors: **10+**

Value creation practitioners: **150+**

VCS Engagements: **200+**



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